

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION
of



TOWN & COUNTRY LIFE INSURANCE COMPANY
of
SALT LAKE CITY, UTAH

as of
December 31, 2007

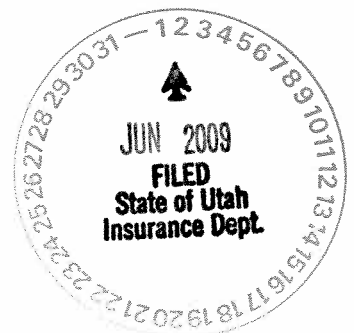


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June 11, 2008

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Morris J. Chaves, Superintendent
Secretary, Western Zone, NAIC
New Mexico Department of Insurance
PO Drawer 1269
Santa Fe, New Mexico 87504-1269

Honorable D. Kent Michie, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, UT 84114-6901

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements in accordance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2007, has been made of the financial condition and business affairs of:

Town & Country Life Insurance Company.
Salt Lake City, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our multi-state examination of Town and Country Life Insurance Company. The last exam was completed as of June 30, 2003. This examination covers the period of July 1, 2003, through December 31, 2007.

Examination Procedure Employed

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks with the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process; and included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2007. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was signed by and received from the Company's management.

An independent certified public accounting (CPA) firm was retained to audit the Company's financial records for the years ended 2003 through 2007. Audit reports generated by the firm were made available for the examination's review. Audit working papers were made available to the examination and utilized for examination purposes when deemed appropriate.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company addressed all of the important points and recommendations noted in the prior examination report.

HISTORY

General

Town & Country Life Insurance Company of Texas was incorporated in the state of Texas on April 13, 1955. The Company re-domesticated its operations to the state of Utah on April 15, 1986, and was granted a certificate of authority to transact the business of life and accident and health insurance. The Company's articles of domestication were approved on April 15, 1986, and amended on April 22, 1986, to reflect the present name of the Company.

As of December 31, 2007, the Company is authorized to transact life, annuity, disability and dental insurance.

There were no amendments made to the bylaws or articles of incorporation during the examination period.

Capital Stock

The Company is authorized to issue 100,000 shares of common stock with a par value of \$10 per share, and 87,947 shares are issued and outstanding. The remaining 12,053 shares are treasury stock reacquired by the Company, for a total capital stock of \$1,000,000.

Effective March 31, 2005, Town and Country Holding Company purchased all issued and outstanding common stock from Hemingway Enterprises, Inc.

As of December 31, 2007, Town and Country Holding Company owns 100% of the issued and outstanding common stock of the Company. Moreton & Company is the ultimate controlling person.

Dividends to Stockholders

The Company paid dividends according to the following schedule during the examination period. The dividends paid by the Company in 2004 include an extraordinary dividend, approved by the Utah Insurance Department, of \$9,175,000.

2003	\$	382,545
2004		9,655,337
2005		0
2006		0
2007		10,553
Total	\$	<u>10,058,435</u>

Management

The following persons served as directors of the Company as of December 31, 2007:

<u>Name</u>	<u>Principal Occupation</u>
William Roger Moreton, Chairman Holladay, Utah	President Moreton & Company
Scott Carl Ulbrich Salt Lake City, Utah	Vice President, Financial Service Moreton & Company
John Thomas Crandall Salt Lake City, Utah	Investment Banker George K. Baum & Company

Morgan John Evans
Sandy, Utah

President, COO (retired)
First Security Corporation

Lindsay Brent Milne
Salt Lake City, Utah

Real Estate Broker
Hemingway Properties, LLC

The officers of the Company as of December 31, 2007, were as follows:

Principal Officer

Office

William Roger Moreton
Scott Carl Ulbrich
William Earl Tingey
Steven Ray Hymas

Chairman of the Board
President
Vice-President and Treasurer
Vice-President and Secretary

The members of the Principal Committees as of December 31, 2007, were as follows:

Executive Committee

Investment Committee

Audit Committee

William Roger Moreton
Scott Carl Ulbrich
John Thomas Crandall

William Roger Moreton
Scott Carl Ulbrich
Morgan John Evans

William Roger Moreton
Scott Carl Ulbrich
Lindsay. Brent Milne

Conflict of Interest Procedure

During the period covered by the examination, directors or officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

Corporate records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors, shareholders and committees. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported the Company's transactions and events.

The prior examination report as of June 30, 2003, was distributed to the board on April 22, 2004.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

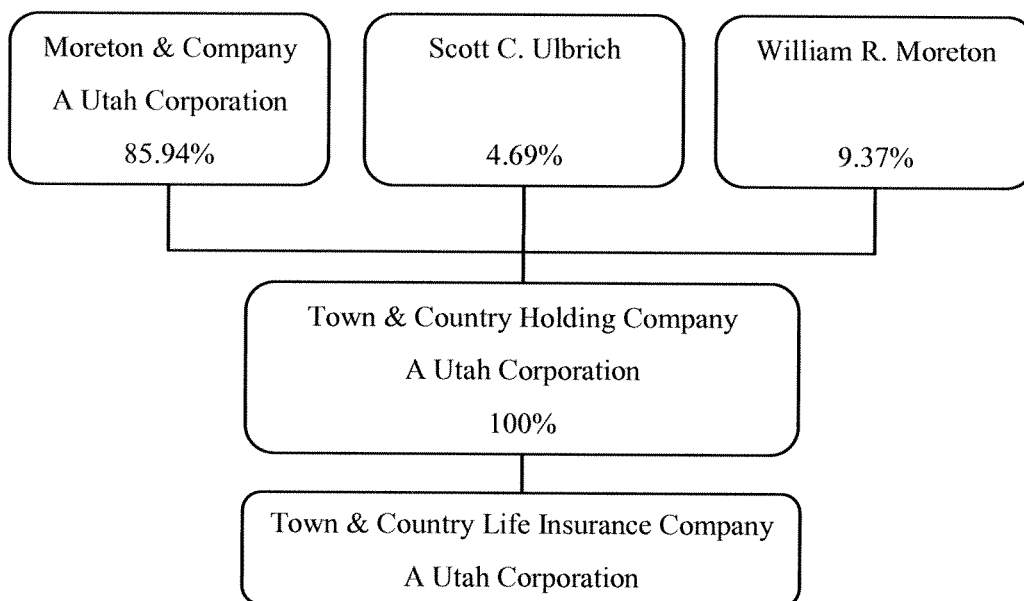
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

Surplus Debentures

No surplus debentures were issued or retired during the examination period and none were outstanding as of December 31, 2007.

AFFILIATED COMPANIES

The Company is a member of the following insurance holding company system:



The ownership of Morton & Company is shared equally between three persons; Edward B. Moreton, Sr., William R. Moreton, and Frederick A. Moreton, Jr.

Cost Sharing Agreement

The Company provided prior notice to the Department, pursuant to the requirement of U.C.A § 31A-16-106 (1) (b) (iv), of a cost-sharing agreement, effective April 1, 2005, with the Company's affiliate Fred A. Moreton & Company. Terms of the cost-sharing agreement included the following:

- Fred A. Moreton & Company would administer the employee salary and benefit plans and charge the Company monthly for salary and employee benefit expenses based upon actual and/or estimated employee time spent on the business by those individuals performing services for the Company.
- Fred A. Moreton & Company would charge the Company \$500 per month for rent expense.

- General expenses such as legal, accounting, actuary, publications, insurance, bank service charges, and investment expenses would be paid directly by the Company.
- Fred A. Moreton & Company would charge the Company for other general expenses commonly used such as postage, express, telephone, printing, stationery, office supplies, data processing and sundry expenses. As of December 31, 2007, Moreton & Company charged \$1,500 per month.
- These procedures and amounts would be reviewed annually and adjusted as is appropriate.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for an insurer of the Company's size and premium volume is not less than \$75,000. As of the examination date, the Company maintained fidelity bond coverage of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no direct employees and is not a party to any retirement or deferred compensation plan.

STATUTORY DEPOSITS

Pursuant to U.C.A §31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum capital requirement. The Company's minimum capital requirement is \$400,000, as specified by U.C.A. § 31A-5-211(2)(a).

The special deposits maintained by or through regulatory agencies in the policyholders behalf, as of December 31, 2007, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	FHLB	\$600,000	\$600,000
Utah	FHLB	<u>\$993,768</u>	<u>1,000,000</u>
Total		<u>\$ 1,593,768</u>	<u>\$ 1,600,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company's principal lines of business are individual deferred and immediate annuities and group dental products. Additionally, the Company has a single disability contract with an affiliate. As of December 31, 2007, the Company did not actively solicit life policies.

The Company retains the full amount of risk on the disability policy and each group dental policy. The Company's retention limit for the short term disability policy, for qualifying individuals, is 60% of its normal earnings for two and one half months. The retained risk for dental policies is \$1,500 for each insured.

The policy forms issued during the examination period were consistent with Department approved forms.

Territory and Plan of Operation

The Company is authorized to transact life and accident and health insurance in the following states as of December 31, 2007:

Arizona	Illinois	Utah
Idaho	Oklahoma	

The deferred annuity policies constitute the major portion of the Company's business. The Company issued and insured a group dental product through an MGA. The Company has not generally pursued or solicited business directly but uses the services of outside producers.

Advertising and Sales Material

The Company did not utilize any form of commercial advertising during the examination period.

Treatment of Policyholders

During the examination period, there were no complaints filed with the Department. During the examination period, the examiners encountered no items of concern regarding treatment of policyholders. The Company maintained a complaint log to monitor complaints.

REINSURANCE

Assumed

Effective December 31, 2006, National Benefit Life Insurance Company under terms of its reinsurance agreement with the Company, effective September 30, 1979, recaptured the group life insurance it had ceded to the Company.

Effective August 1, 2007, Beneficial Life Insurance Company under terms of its reinsurance agreement with the Company, effective October 1, 2005, recaptured the group term life insurance policies it had ceded to the Company.

The Company had no other assumed reinsurance.

Ceded

The Company neither maintained, nor entered into any ceded reinsurance arrangements during the examination period.

ACCOUNTS AND RECORDS

The Company utilizes a centralized computer record processing system, supplemented by ancillary records maintained either manually or on personal computers. A trial balance, as of December 31, 2007, was prepared from the Company's general ledger. Account balances were traced to annual statement reports, exhibits, and schedules without material exception. Individual account balances were examined as deemed necessary.

Deficiencies encountered by the examination relating to accounts and records include:

1. As of December 31, 2007, the Company held its statutory deposits and other invested securities, pursuant to U.C.A. § 31A-4-108, under a custodial agreement with KeyTrust Company. The agreement did not comply with Utah Administrative Code (U.A.C.) Rule R590-178.

On February 19, 2008 entered into two new agreements with KeyBank National Association. These agreements cover the statutory deposits and other invested securities. These agreements were revised to comply with the requirements of U.A.C. R590-178 and were authorized by the Board of Directors on March 25, 2008.

2. As of December 31, 2007, the Company held a single bond with George K. Baum & Company and four equity securities with Key Bank Capital Markets, both broker/dealers, without custodial agreements in place contrary to the requirement of U.C.A. § 31A-4-108. (See NOTES TO FINANCIAL STATEMENT 1 & 2)

The bond held with George K. Baum & Company was redeemed and funds returned to the Company during examination fieldwork.

The Company subsequently established a custodial agreement with Key Bank Capital Markets that complies with the requirements of U.A.C. R590-178 and was authorized by the Board of Directors on June 30, 2008.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2007

SUMMARY OF OPERATIONS for the Year Ended December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – 2003 through 2007

The accompanying NOTES TO FINANCIAL STATEMENT is an integral part of the financial statements.

TOWN & COUNTRY LIFE INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2007

ASSETS

	<u>Amount</u>	
Bonds	\$ 3,294,265	(1)
Common stocks	0	(2)
Mortgage loans on real estate: First liens	584,913	
Cash and short-term investments	886,064	
Contract loans	21,037	
Investment income due and accrued	18,437	
Uncollected premiums and agents' balances	11,346	
Net deferred tax asset	5,433	
Total assets	<u><u>4,821,495</u></u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserves for life contracts	2,002,414	
Aggregate reserves for accident and health contracts	1,224	
Liability for deposit type contracts	40,298	
Contract claims: Accident & health	97,816	
Premiums and annuity considerations for life and health contracts received in advance	9,768	
Interest Maintenance Reserve	120,858	(3)
Commissions to agents due or accrued	5,354	
General expenses due or accrued	2,773	
Net deferred tax liability	3,006	
Unearned investment income	800	
Asset valuation reserve	54,157	
Total liabilities	<u><u>2,338,468</u></u>	
Common capital stock	1,000,000	
Gross paid in and contributed surplus	405,450	
Unassigned funds (surplus)	1,077,577	
Total capital and surplus	<u><u>2,483,027</u></u>	
Total liabilities, capital and surplus	<u><u>\$ 4,821,495</u></u>	

TOWN & COUNTRY LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2007

Premium and annuity considerations for life and accident and health contracts	\$ 789,810	
Net investment income	209,292	
Amortization of Interest Maintenance Reserve	16,937	(3)
Miscellaneous Income	10,454	
Total revenues	<u>1,026,493</u>	
Death benefits	37,198	
Annuity benefits	51,783	
Disability benefits and benefits under accident and health contracts	565,011	
Surrender benefits and withdrawals for life contracts	130,708	
Interest and adjustments on contract or deposit-type contract funds	1,650	
Payments on supplementary contracts with life contingencies	4,296	
Increase in aggregate reserves for life and accident and health contracts	<u>(105,858)</u>	
Total benefits and reserves	684,788	
Commissions on premiums, annuity considerations and deposit-type contract funds	43,043	
General insurance expenses	253,355	
Insurance taxes, licenses and fees, excluding federal income taxes	6,952	
Total expenses	<u>988,138</u>	
Net gain from operations before dividends to policyholders and federal income taxes	38,355	
Dividends to policyholders	<u>0</u>	
Net gain from operations after dividends to policyholders and before federal income	38,355	
Federal income taxes incurred	<u>0</u>	
Net gains from operations after federal income taxes and before realized capital gains	38,355	
Net realized capital gains or (losses)	<u>0</u>	
Net income	<u><u>\$ 38,355</u></u>	

TOWN & COUNTRY LIFE INSURANCE COMPANY.
RECONCILIATION OF CAPITAL AND SURPLUS
2003 through 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	Notes
Capital and surplus,						
December 31, previous year	\$ 9,340,128	\$ 9,400,436	\$ 2,530,752	\$ 2,807,003	\$ 2,859,313	
Net income	3,844	988,485	(1,702)	40,357	38,355	(3)
Change in net unrealized capital gains (losses)						
Change in net deferred income tax	1,708,634	(414,063)	7,825	21,923	7,824	
Change in nonadmitted assets	(142,086)	37,061	(1,589)	(140)	2,106	
Change in asset valuation reserve	(1,073,820)	1,075,000	(3,404)	1,572	(393,433)	(1)(2)
Dividends to stockholders	(53,719)	1,099,170	(30,329)	(11,402)	(3,455)	
Change in treasury stock	(382,545)	(9,655,337)			(10,553)	
Surplus adjustment:			1,490,956			
Paid in			305,450			
Transferred from capital			(1,490,956)			
Prior period adjustments - IMR					(17,130)	(3)
Net change in capital and surplus	60,308	(6,869,684)	276,251	52,310	(376,286)	
Capital and surplus,						
December 31, current year	<u>\$ 9,400,436</u>	<u>\$ 2,530,752</u>	<u>\$ 2,807,003</u>	<u>\$ 2,859,313</u>	<u>\$ 2,483,027</u>	

NOTES TO FINANCIAL STATEMENT

(1) Bonds \$ 3,294,265

The Company reported a bonds asset of \$3,494,265. The examination has determined, that one bond was not held, pursuant to U.C.A. § 31A-4-108, under a custodial agreement. The bond asset has been non admitted and reduced by \$200,000.

(2) Common Stocks \$ 0

The Company reported common stocks in the amount of \$190,587. The examination determined the common stocks asset, consisting of four securities, was not held under a custodial agreement pursuant to U.C.A. § 31A-4-108 and U.A.C. Rule R590-178. The common stocks asset was non-admitted and reduced by \$190,587.

(3) Interest Maintenance Reserve \$ 120,858

The Company reported an Interest Maintenance Reserve (IMR) liability of \$95,770. The examination has determined that the IMR liability was understated by \$25,088. The Company uses the group methodology for amortization calculation. The grouping of realized gains (losses) for 2004 was incorrect. Additionally, the Company used a 7% interest rate for the basis of the amortization rather than the 6% specified by the 2004 NAIC Group Amortization Schedule. The liability was increased by \$25,088, reducing net income as of December 31, 2007 by \$7,958 and \$17,130 in the prior period.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$415,675 less than reported in its annual statement as of December 31, 2007. The following schedule identifies the examination changes to specific balance sheet lines:

<u>Description</u>	<u>Annual Statement Dr (Cr)</u>	<u>Per Examination</u>	<u>Change in Surplus Inc. (Dec.)</u>	<u>Notes</u>
Bonds	\$ 3,494,265	\$ 3,294,265	\$ (200,000)	(1)
Common Stocks	190,587	0	(190,587)	(2)
Interest Maintenance Reserve	(95,770)	(120,858)	(25,088)	(3)
Total examination changes			(415,675)	
Capital and surplus per Company			2,898,702	
Capital and surplus per Examination			<u>\$ 2,483,027</u>	

The Company's minimum capital requirement was \$400,000 as specified in U.C.A. § 31A-5-211(2)(a). As of December 31, 2007, the Company reported total adjusted capital of \$2,952,858 and its authorized control level risk based capital requirement of \$72,267.

Examination adjustments reduced total adjusted capital to \$415,675. The examination reviewed the effect of examination changes to the authorized control level risk based capital and determined that the margin between reported RBC and total adjusted capital was sufficient such that it would not be an efficient use of time to determine the precise figure. The examination accepts the reported risk based capital amount.

SUMMARY OF EXAMINATION FINDINGS

The following is a summary of examination findings and significant information:

1. Effective March 31, 2005, Town and Country Holding Company purchased all issued and outstanding common stock from Hemingway Enterprises, Inc. As of December 31, 2007, Town and Country Holding Company owns 100% of the issued and outstanding common stock of the Company. Moreton & Company is the ultimate controlling person. (HISTORY-Capital Stock)
2. As of December 31, 2007, the Company held its statutory deposits and other invested securities, pursuant to U.C.A. § 31A-4-108, under a custodial agreement that did not comply with Utah Administrative Code (U.A.C.) Rule R590-178.

The Company subsequently entered into two new agreements which complied with the requirements of U.A.C. R590-178 and were both authorized by the Board of Directors on March 25, 2008. (ACCOUNTS AND RECORDS)

3. As of December 31, 2007, the Company held a single bond and four equity securities with two broker/dealers, without custodial agreements in place contrary to the requirement of U.C.A. § 31A-4-108. (See NOTES TO FINANCIAL STATEMENT Notes 1 & 2)

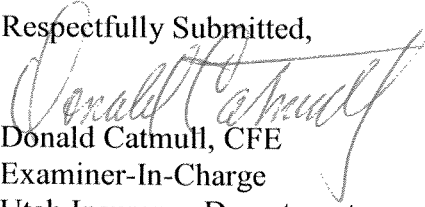
The bond was redeemed and the funds returned to the Company during examination fieldwork. The Company subsequently established a custodial agreement with holder of the equities which complies with the requirements of U.A.C. R590-178 and was authorized by the Board of Directors on June 30, 2008. (ACCOUNTS AND RECORDS)

4. The Company reported an IMR liability that was determined to be understated by \$25,088. The group methodology for amortization calculation used by the Company was incorrect. Additionally, the Company used an incorrect interest rate for the basis of the amortization. (NOTES TO FINANCIAL STATEMENT Note 3)

ACKNOWLEDGEMENT

James MacDougall, FSA, MAAA, of the actuarial firm of Marsh Actuarial Consulting, Inc. performed the actuarial phases of the examination. In addition, Aaron Phillips, Financial Examiner, participated in the examination representing the Utah Insurance Department. Colette M. Hogan Sawyer, CFE, Assistant Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Donald Catmull", is written over the printed name and title.

Donald Catmull, CFE
Examiner-In-Charge
Utah Insurance Department